

SELECTING PRIVATE DEVELOPERS FOR PROJECTS WITH PUBLIC
PURPOSE: DEVELOPMENT COMPETITIONS OF THE
PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

By

James Everett Samsel
Bachelor of Architecture
University of Arizona
(1972)

SUBMITTED TO THE DEPARTMENT OF ARCHITECTURE AND THE
DEPARTMENT OF URBAN STUDIES AND PLANNING IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER
OF SCIENCE IN REAL ESTATE DEVELOPMENT AT THE
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

SEPTEMBER 1989

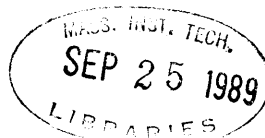
© James E. Samsel 1989

The author hereby grants to M.I.T. permission to reproduce
and to distribute publicly copies of this thesis document
in whole or in part.

Signature of the author _____ James E. Samsel

Certified by _____ Bernard Frieden
Professor
Department of Urban Studies and Planning
Thesis Advisor

Accepted by _____ Michael Wheeler
Chairman
Interdepartmental Degree Program in Real Estate Development



SELECTING PRIVATE DEVELOPERS FOR PROJECTS WITH PUBLIC
PURPOSE: DEVELOPMENT COMPETITIONS OF THE
PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

by

James Everett Samsel

SUBMITTED TO THE DEPARTMENT OF ARCHITECTURE AND THE
DEPARTMENT OF URBAN STUDIES AND PLANNING IN SEPTEMBER
1988, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF SCIENCE IN REAL ESTATE DEVELOPMENT AT
THE

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

ABSTRACT

This thesis analyzes the Pennsylvania Avenue Development Corporation's (PADC's) management of development competitions and explores how such competitions contribute to the "codevelopment" of projects with both public and private benefits.

Specifically, this paper will review the management of two PADC development competitions, from the preparations preceding the prospectus through the evaluation of submissions and selection of the developer. Throughout the paper, special emphasis is placed on how the PADC responded to change during the competition process.

Case studies of two competitions held by the PADC in Washington, D.C., examine: How public benefits were determined; how private investment was encouraged; and how the competition sites would have been developed without the PADC's competition/codevelopment process.

In addition, this thesis describes: The powers and activities of the PADC which contributed to its effectiveness as a public development corporation; how the Corporation was able to achieve its objectives for public benefits; and how the PADC's competition sites would have been developed if the PADC exercised only traditional methods of public intervention, i.e., regulatory controls with no land purchase and sale.

The main conclusion is that development competitions can be an effective means for public development corporations to engage private developers for projects with a public purpose. Well-managed competitions, in particular, can result in projects superior to those produced by the private sector alone.

Finally, while the PADC is admittedly an unusual public corporation with unique boundaries and a Congressional mandate, many of its competition experiences reviewed in this thesis offer useful insights for other codevelopers.

Thesis Advisor:

Dr. Bernard J. Frieden

Title:

Professor of City Planning

TABLE OF CONTENTS

| | |
|--|-------------|
| CHAPTER ONE: GENERAL INTRODUCTION..... | p. 4 |
| 1.0 OVERVIEW OF PUBLIC DEVELOPMENT IN THE US..... | 4 |
| 1.1 COMPETITIONS IN THE CODEVELOPMENT CONTEXT..... | 6 |
| 1.2 TYPES OF DEVEVELOPMENT COMPETITIONS..... | 7 |
| 1.3 METHOD OF ANALYSIS..... | 8 |
| CHAPTER TWO: DEVELOPMENT COMPETITIONS AS A COMPONENT OF THE PADC'S REDEVELOPMENT EFFORTS..... | 10 |
| 2.0 BACKGROUND AND PURPOSE OF THE PADC..... | 10 |
| 2.0.1 Powers of the PADC | |
| 2.0.2 Planning Requirements | |
| 2.0.3 Plan Implementation | |
| 2.0.4 PADC Funding/Finances and Private Investment | |
| 2.0.5 The PADC Board of Directors | |
| 2.1 EARLY HISTORY OF THE PADC COMPETITIONS..... | 14 |
| 2.1.1 The 1978 Competitions | |
| CHAPTER THREE: THE PARCEL 408 - 432 (MARKET SQUARE) COMPETITION..... | 19 |
| 3.0 INTRODUCTION AND BACKGROUND..... | 19 |
| 3.1 PLANNING ACTIVITIES..... | 20 |
| 3.1.1 Initial Project Concept - 1974 | |
| 3.1.2 Revised Project Concept - 1983 | |
| 3.2 THE PROSPECTUS AND ITS PREPARATION..... | 23 |
| 3.2.1 "Neighborhood" and Project Objectives | |
| 3.2.2 The Site and Its Surroundings | |
| 3.2.3 Selection Criteria | |
| 3.2.4 Additional Requirements/Information | |
| 3.2.5 Urban Design and Financial Strategy Background | |
| 3.2.6 Issuance of the Prospectus | |
| 3.3 SUBMISSIONS AND SELECTION..... | 30 |
| 3.3.1 The Private Sector Response | |
| 3.3.2 Submission Evaluation And Selection | |
| 3.3.3 Post-Selection Negotiation/Changes | |
| 3.4 CASE SUMMARY AND ANALYSIS..... | 35 |
| CHAPTER FOUR: THE PARCEL 431-B (LANSBURGH'S SITE) COMPETITION..... | 39 |
| 4.1 INTRODUCTION AND BACKGROUND..... | 39 |
| 4.2 THE PROSPECTUS AND ITS PREPARATION..... | 41 |
| 4.2.1 Project Objectives and Requirements | |
| 4.2.2 The Site and Historic Preservation Issues | |
| 4.3 SUBMISSIONS AND SELECTION..... | 43 |
| 4.3.1 The Private Sector Response | |
| 4.3.2 Submission Evaluation and Selection | |
| 4.3.3 Post-Selection Negotiation/Changes | |
| 4.4 CASE SUMMARY AND ANALYSIS..... | 47 |
| CHAPTER FIVE: CONCLUSIONS AND ANALYSIS..... | 51 |
| APPENDIX (TABLE/MAPS)..... | 57 |
| BIBLIOGRAPHY/LIST OF INTERVIEWS..... | 61 |

CHAPTER ONE: GENERAL INTRODUCTION

In 1987, the federal government granted the Pennsylvania Avenue Development Corporation (PADC) responsibility for managing the development of the 3.1 million square foot Federal Office Building - International Cultural and Trade Center project in Washington, D.C. When compared with other federal buildings, only the Pentagon will exceed the size of this sprawling complex. The project was outside the PADC's original boundaries and scope of work. A project of this type would typically be managed by other federal agencies.

Therefore, selection of the PADC to manage this effort reflected a resounding endorsement by both Congress and the President of the PADC's past operations, including its four previous development competitions.

This thesis will analyze the PADC's management of development competitions and explore how such competitions contribute to the "codevelopment" of projects with both public and private benefits.

1.0 OVERVIEW OF PUBLIC DEVELOPMENT IN THE U.S.

Codevelopment is the combined development of real estate by business and government.¹ It is the latest in a continuum of public involvement in development activities in this country that began with the public development of Washington, D.C., Williamsburg, Annapolis and Savannah during the Colonial and post-Colonial periods.^{2,3} Other major public development initiatives included the federal

government's development of a number of suburban "greenbelt" towns in the 1920s and 1930s, and the urban renewal programs which were quite active in many city centers from the late 1940s to the early 1970s.

Public-sector development projects of the past have met with varied degrees of success. The urban renewal programs, for example, often resulted in land assemblage and clearance without prior identification of a feasible program or developer. Funds were typically earmarked only for limited activities, such as planning or acquisition, which often prevented creative solutions demanded by the complexity of urban problems.

In reaction to the many criticisms regarding the effectiveness of urban renewal, the federal government shifted strategies. The early 1970s saw the formation of more sophisticated and flexible federal redevelopment efforts. Cooperation, profit and risk-sharing between the public and private sectors were initiated on the local level and later supported by the federal government. Codevelopment through "public-private partnerships" became possible via the federal Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs, amongst others. The UDAG program, in particular, required private-sector commitment to public-private projects prior to the projects being considered for federal funds.

The subsequent and continuing reduction of federal funds for redevelopment efforts during the 1980s, however, has pushed communities to look increasingly toward the

private sector for assistance in developing projects with a public purpose.

1.1 COMPETITIONS IN THE CODEVELOPMENT CONTEXT

Competitions are only one component of a total codevelopment process. A partial list of codevelopment activities includes: identifying the site, preparing the market, financial and design studies, soliciting developer interest and proposals, site control, selecting a developer, and negotiating an agreement.

As a method of developer selection, development competitions offer unique opportunities for communities to incorporate public policy objectives into project guidelines and invite private developers to respond creatively. Through careful crafting, a codevelopment/competition process can help communities avoid the shortcomings of past public development efforts.

During the past decade, development competitions have emerged as the preferred method communities can use to select a private developer to codevelop a project. Most development competitions are a hybrid of design competitions and more traditional site bidding procedures. Other methods by which private developers become involved in codevelopment projects include: design-only competitions, site bidding, and developers initiating requests for public cooperation in jointly developing projects with public purpose.

1.2 TYPES OF DEVELOPMENT COMPETITIONS

Within the generic definition of development competitions exist a variety of developer qualification and selection procedures.

Most **one-stage competitions** incorporate an assessment of developer qualifications into the Request for Proposal (RFP) or prospectus by defining the minimum qualifications necessary before any submission will be considered for selection. On the other hand, some one-stage competitions utilize only a Request for Qualifications (RFQ) procedure to identify which developers possess the qualifications, experience and financial capability necessary to carry out the proposed project. A developer is then selected for the project strictly on the RFQ procedure. In this type of competition, negotiations after the selection of the developer would necessarily include: finalizing the proposed project's program requirements (use and size), approving designs and establishing land sale/lease price or development fees.

In addition, one-stage competitions can be either **open**, whereby any qualified developer's submission will be considered, or **invited**, in which case the entrants are limited prior to submissions.

Two-stage competitions, however, require that all interested developers complete the RFQ procedure and then only the "qualified developers" proceed to the RFP stage.⁴

Of course, even within these broader definitions, many

variations exist. A common competition procedure is to narrow the initial submissions via a preliminary selection and then require additional information from the finalists prior to final selection.

1.3 METHOD OF ANALYSIS

This paper will analyze the management of development competitions, from the preparations preceding the prospectus through the evaluation of submissions and selection of the developer. Throughout the paper, special emphasis will be placed on how the PADC responded to change throughout the competition process.

Case studies of two competitions held by the Pennsylvania Avenue Development Corporation (PADC) in Washington, D.C. will be conducted.

The case studies will examine:

- How the public benefits were determined;
- How private investment was encouraged; and
- How the competition sites would have been developed without the PADC's competition/codevelopment process.

Chapter Five, the thesis conclusion, will examine:

- The powers and activities of the PADC which contributed to its effectiveness as a public development corporation;
- How the Corporation was able to achieve its objectives for public benefits; and
- How the PADC's competition sites would have been developed if the PADC exercised only traditional methods of public intervention, i.e., regulatory controls with no land purchase and sale.

The PADC is admittedly an unusual public corporation with unique boundaries and a Congressional mandate. However, many of its competition experiences can offer useful insights for other codevelopers.

NOTES TO CHAPTER ONE

1. Witherspoon, Robert, "Codevelopment: City Rebuildingby Business and Government" ULI Development Component Series, Washington, D.C.: Urban Land Institute, 1982.
2. Reps, J., The Making of Urban America, 1975.
3. Lefcoe, George, "When Government Becomes Land Developers: Notes on the Public Sector Experience in the Netherlands and California," Lincoln Institute of Land Policy, Monograph #78-3, April 1978.
4. Dowall, D., Gardner, L., Green, V., "Public Real Estate Development Manual", Working Paper, U. of California, Berkeley, Institute for Transportation Studies.

CHAPTER TWO: DEVELOPMENT COMPETITIONS AS A COMPONENT OF THE PADC'S REDEVELOPMENT EFFORTS

2.0 BACKGROUND AND PURPOSE OF THE PADC

During his 1960 inaugural parade, President John F. Kennedy observed Pennsylvania Avenue's decay and decided to undertake a massive redevelopment of "the main street of the nation."¹ In 1972, following action by his administration as well as significant effort under two successors, The Pennsylvania Avenue Development Corporation (PADC) was created by Congress.

With the passage of the Pennsylvania Avenue Development Corporation Act of 1972, Congress determined that:

The national interest required that the area adjacent to Pennsylvania Avenue between the Capitol and the White House be used in a manner suitable to its ceremonial, physical, and historic relationship to the legislative and executive branches of government and the government buildings, monuments, memorials and parks in and around the area.²

This Act was a resolve to restore the dignity and prominence that had characterized the grand avenue during the prior century. The Pennsylvania Avenue area had suffered dramatically from the lack of private investment and the shifting of commercial interests to other sections of the city and its suburbs. At its worst, the Pennsylvania Avenue corridor was considered a growing liability to both the federal government and the District of Columbia. The area's plight also was indicative of the complex problems facing most American city centers at that

time.

2.0.1 Powers of the PADC

The powers conferred by the Act were for public purposes. In order to tackle the problems facing it, Congress established the PADC as a wholly owned corporation of the U.S. Government and vested it with authority to:

- acquire property, through eminent domain proceedings if necessary
- construct and rehabilitate buildings
- manage property
- establish restrictions, standards and other requirements that will assure conformance with the plan
- sue and be sued in its own name.³

2.0.2 Planning Requirements

A Congressionally approved, comprehensive plan for redevelopment of the PADC's area was also required by the Act. It stated:

"..in order to insure proper development and use of the area and the elimination of blight, a comprehensive plan must be developed and implemented which would specify:

- the types of uses, both public and private, to be permitted;
- criteria for the design and appearance of buildings, facilities, open space, and other improvements;
- estimates of the current values, land preparation costs and reuse values of all property to be acquired;
- an estimate of relocation costs that would be incurred in carrying out the plan;
- estimates of the staging, development costs (both public and private) and marketability for proposed developments;
- projections of the potential economic impacts of the proposed developments;
- procedures to be used in carrying out and insuring the continuing conformance to the development plan.⁴

Congress, recognizing that the redevelopment effort would require shared responsibilities, encouraged the PADC to maximize both public and private resources in the implementation of the plan. In fulfilling this rather detailed list of planning requirements, subsequent efforts produced the Pennsylvania Avenue Plan of 1974 (The Plan). It was an ambitious scheme to overhaul the area (See Map#1) via strategic public investments aimed at encouraging substantial private participation. Following numerous hearings and reviews, The Plan was adopted by Congress in 1975.

2.0.3 Plan Implementation

The Plan recommended implementation objectives which produced the following major programs:

Public improvements - Streetscape improvements included lighting, street trees, sidewalk widening and special paving. New public parks/spaces were also added and existing ones were improved.

Regulatory mechanisms - Design and development guidelines were established and PADC approval of all projects (public, private and public-private) was required prior to the issuance of building permits by the District of Columbia.

Historic Preservation - An historic preservation plan was prepared and financial incentives were established to encourage rehabilitation of historic building components, particularly facades.

Land Assemblage and Codevelopment - Development sites were acquired for two primary purposes. First, to assist a landowner who owned at least 50 percent of a required parcel for a PADC-approved project, but who had difficulty in acquiring the remainder. Second, to acquire sites for public-private codevelopment using the development competition process as the method of selecting the private developer.

The PADC used this acquisition method when conducting five development competitions from its inception through 1989.

2.0.4 PADC Funding/Finances and Private Investment

The PADC benefited from a variety of funding sources including annual public development appropriations from Congress, U.S. Treasury borrowings, and proceeds from the sale and lease of real estate and donations. The public development appropriations were used for public area improvements, historic preservation programs and administrative expenses. The Corporation utilized its line of credit with the U.S. Treasury, land sale and lease revenues for the financing of land acquisitions. All direct expenses associated with the PADC's acquisition of property destined for private ownership were mandated by Congress to be fully recovered by the U.S. Treasury, over time.⁵

The scope of appropriations, borrowing and revenues are reflected by the PADC's 1988 annual report:

A cumulative total of \$131 million of public development appropriations and \$99.9 million in borrowing authority has been enacted for the Corporation through fiscal 1989. Since 1978, the PADC has earned \$158 million in revenue from the sale or lease of real estate. Those funds have been used to retire debt, purchase additional real estate and fund property management expenses.

Coinciding with the public investments has been almost \$1.5 billion of private commitments for projects since the PADC began operations. The competition projects have generated approximately 41 percent of that private investment. (See Table#1)

2.0.5 The PADC Board of Directors

The Corporation's Board consists of 15 voting and seven non-voting members. The President of the United States appoints eight voting members from the private sector to serve six-year terms. The remaining seven voting positions are designated by Congress and represent agencies of the federal government and the District of Columbia. The non-voting positions are also designated by Congress and represent additional local and federal agencies and commissions.⁶

2.1 EARLY HISTORY OF THE PADC COMPETITION PROCESS

In 1977, after receiving full operational appropriations, the PADC began to organize staff and structure implementation programs, including the initial competitions. Little private development had taken place

in the Pennsylvania Avenue area for the several decades preceding the PADC's operations. The dire need for redevelopment was evidenced by the numerous vacant lots and deteriorated structures along the PADC corridor.

The 1974 Plan had targeted the western portion (toward the White House) of Pennsylvania Avenue for early redevelopment activities. One landmark in that area (Square 225) was the former Willard Hotel. Prior to the PADC's implementation efforts, quite a bit of local interest had been generated for the Willard's rehabilitation, ideally to its original use as a hotel. Opportunity for PADC intervention presented itself when the then-owner of the Willard filed an inverse-condemnation lawsuit against the federal government. The owner contended his property value had been diminished by the 1974 Plan's requirement that the structure be saved and preferably be reopened as a hotel. The PADC was able to acquire the property as a result of the settlement of that lawsuit.⁷

In an adjacent block (square 254), architect and developer John Portman of Atlanta suggested to the PADC that the site was prime for a large mixed-use project including office, retail and a hotel.⁸ The property was difficult to assemble, however, due to uncooperative multiple owners. The square also contained another local landmark, the National Theatre.

2.1.1 The 1978 Competitions

In the spring of 1978, after selecting sites within Squares 225 (Willard and adjacent lot) and 254 (later to become known as "National Place") as the locations of codevelopment/competition projects, the PADC issued development prospectuses for both sites. The prospectuses, which requested proposals from developers, were composed of largely original material prepared by the PADC staff. Prior to their preparation, staff had reviewed similar documents from other localities. In addition, one of the key staff authors came to the PADC from competition experience with the District of Columbia's Redevelopment Land Authority (RLA).

The PADC opted for the open, one-stage prospectus method of development competitions, with the option of narrowing the initial field of entrants prior to final submission selection.

The prospectuses reflected the rather weak real estate market conditions in the area and a test of recently-expressed developer interest. Consequently, the PADC did not specify strict minimum price requirements nor did it attach stringent performance procedures to its proposed timetables.^{9,10} As a further inducement to developers, the PADC offered to ground lease both sites. Ground leases, however, would not only reduce front-end costs to the developers, they would also provide the PADC with potential long-term, upside return on its investment.

The PADC looked to the developers to propose projects

that satisfied specific selection criteria including a varied combination of recommendations for program/use, project economics, creative design solutions and developer financial strength. All criteria were aimed at producing projects which would bring new jobs, shopping and business opportunities to revitalize the "main street of the nation."

Proposals for both projects were received from developers during the summer of 1978. While the proposals came quickly, actual construction was delayed due to the complexity of subsequent negotiations for each project. National Place was started in 1981, and the Willard project did not commence until 1984. Those competitions produced two mixed-use projects in adjacent blocks of the western sector of Pennsylvania Avenue:

National Place - The development of a new 774-room hotel, festival retail and office project adjacent to the rehabilitated 1,670-seat National Theatre and National Press Building.

Willard - The rehabilitation of the then-abandoned Willard Hotel into a 365-room luxury hotel and the construction of adjoining new retail, office and parking facilities.

The lengthy negotiations and extensive changes required by each project provided the PADC with often frustrating, but nonetheless invaluable, competition experience.

In the early 1980s, the PADC recognized new strength

in the real estate market, and realized it could improve on past competition efforts by providing more specific and stringent program, financial and schedule requirements for developers. The PADC prepared to move into the second phase of its codevelopment efforts by incorporating those requirements into its next competition - Parcel 408-432.

NOTES TO CHAPTER TWO

1. Witherspoon, Robert, "Codevelopment: City Rebuilding by Business and Government" ULI Development Component Series, Washington, D.C.: Urban Land Institute, 1982.
2. The Pennsylvania Avenue Plan 1974, Pennsylvania Avenue Development Corporation, Washington, D.C., October 1974.
3. Public Law 92-578, enacted by Congress on October 27, 1972.
4. Public Law 92-578, enacted by Congress on October 27, 1972.
5. PADC Annual Report - 1988.
6. PADC Annual Report - 1987.
7. Neuhaus, Jo-Ann, Chief of Project Managment, PADC, personal interview, June 22, 1989.
8. Neuhaus, Jo-Ann, Chief of Project Managment, PADC, personal interview, June 22, 1989.
9. Parcel 225-A (Willard Hotel) and Parcel 225-B Prospectus, PADC, 1978.
10. Parcel 254-A Prospectus, PADC, 1978.

CHAPTER THREE: THE PARCEL 408-432 (MARKET SQUARE) COMPETITION

3.0 INTRODUCTION AND BACKGROUND

Pierre L'Enfant's 1792 plan for Washington D.C. called for one of the most important public squares in the city to be constructed at the intersection of Pennsylvania Avenue and 8th Street. The intersection became known as Market Square during the operation of Center Market, a lively, circa-1800 farmers and merchants exchange located on the south side of Pennsylvania Avenue and centered on the 8th Street axis. In the 1930s, Washington began to be fully transformed into a federal city and the Center Market was replaced by the National Archives.^{1,2}

The positioning of the Archives and the Patent Office (now the National Portrait Gallery) at opposite ends of the 8th Street axis maintained the opportunity to create a great public space. Both the Pennsylvania Avenue Plan of 1964 (created by the President's Council on Pennsylvania Avenue) and the Pennsylvania Avenue Plan of 1974 (created by the Pennsylvania Avenue Development Corporation) revived L'Enfant's recommendation of a public square and added the notion of creating adjacent new development.

The early 1980s, however, found the Market Square site to be characterized by a collection of parking lots and under-utilized 19th and early 20th century buildings. Only a triangular sliver of public space remained, abutting the south edge of the site. This picture of dilapidation, combined with the planners' glimpse of its potential, illustrates both the challenge faced by the PADC - and the

vision that spurred the organization toward its ambitious goals for the area.

In 1989, nearly two centuries after L'Enfant's initial suggestion, Washington residents and visitors enjoyed the completed portions of the new Market Square Park/Navy Memorial. They also awaited the 1990 opening of "Market Square," an adjacent \$230 million private mixed-use development and the concurrent completion of the park.

The PADC, following a lengthy pre-development process, had achieved its dual goal of creating a new public space and encouraging its perimeter to be developed privately. The development fulfilled the PADC's public benefit requirements to create housing and additional open space, and met urban design, architectural and affirmative action guidelines.

3.1 PLANNING ACTIVITIES

3.1.1 Initial Project Concept - 1974

The Pennsylvania Avenue Plan of 1974, hereafter called The Plan, was prepared over twelve months by the initial PADC staff and numerous consultants. Preliminary schemes were presented at community workshops, public hearings and at meetings with federal agencies, the District Government, local businesses and organizations. Comments were collected and incorporated into the final plan which was ultimately adopted by Congress in 1975.

Among The Plan's objectives were:

- Bringing people back to live along the Avenue. Around-the-clock residents would help keep the area alive after work hours and would support a greater variety of commercial and cultural activities.
 - Introducing new buildings representing the best contemporary architectural and planning concepts. The new buildings would be situated on currently under-utilized land and must complement and enhance the existing urban fabric.
- The Plan outlined the block-by-block (referred to as

squares) redevelopment of Pennsylvania Avenue. (See Map #1) The western portion of the area, between the FBI Building and the U.S. Treasury, was to include office, retail and hotel uses. The Market Square area, east of the FBI Building, included proposed new residential development as well additional office, hotel and retail uses.

The Plan specifically recommended that the Market Square site, Squares 408 and 432, (as well as adjacent Squares 407 and 431) be developed into a four-square "superblock." (See Map #2) The superblock development was to be the centerpiece of a new in-town residential community. It would be organized around an autoless 8th Street pedestrian corridor and would contain primarily residential uses along with private and government offices and retail space. A major underground storage repository for the National Archives was also planned beneath the entire four-block area.

Situated between the south edge of the complex and Pennsylvania Avenue would be Market Square Park, a reorganization and expansion of the existing public space. The Plan also proposed that the PADC "encourage to

the greatest possible degree that the ground floor space fronting on Market Square be used for shops, restaurants, and other pedestrian-oriented uses."

To create the type of in-town residential community envisioned in 1974, The Plan anticipated the PADC's acquisition of most of the property in the Market Square (eastern sector) area.

3.1.2. Revised Project Concept - 1983

In 1983, the PADC Board of Directors adopted several amendments to The Plan, which included major changes to the development concept for squares 408-432. The amendments grew out of two-and-a-half years of intensive study of urban design, development economics and historic preservation issues for the area east of the FBI Building. The resulting Eastern Sector Report represented an almost total reexamination of the portion of The Plan that included Market Square.³

The study was in response to changes taking place since The Plan's drafting in 1974. The early 1980s brought dramatic increases in land values, and hence acquisition costs, in the eastern sector of Pennsylvania Avenue. Those cost increases were coupled with decreasing federal participation in housing programs, and an increasingly persuasive historic preservation constituency. Added to those new project influences was the Archives' preference for a suburban location rather than the underground site recommended in 1974.

These shifts in market conditions and federal

programs, as well as the PADC's continued intent to create an in-town residential community, were considered during the reevaluation study. The resulting Eastern Sector Report recommended using an "infill" approach to development instead of the 1974 superblock vision. (See Map #3) The infill concept included preserving many of the existing structures in the area and strengthening the existing built fabric with new development. As a result of this reexamination, the superblock idea was discarded and plans for the new public space, Market Square Park, were expanded to include additional land area.

The Eastern Sector Report also called for use of public/private development techniques previously applied in the PADC's western sector projects. Among those techniques was the PADC's direct purchase of sites for future development competitions in which public benefits (such as housing, exemplary urban design/architecture or additional public space) were to be provided by developers. The developers, in return, received preferential land pricing.

Following adoption of the 1983 Amendments to The Plan, preliminary design approvals of the Market Square Park, and expressed interest in the Market Square Area by developers, the PADC decided to proceed with preparations for its third development competition - Parcel 408-432.4

3.2 THE PROSPECTUS AND ITS PREPARATION The Development Prospectus was the public offering document used by the PADC to invite the interest and response of potential

developers. It included all relevant PADC project objectives as set forth in The Plan and its amendments, as well as a complete description of the site and the proposed terms for its transfer.

The Corporation established the Prospectus for Parcel 408-432 (Market Square) based on experience with its 1978 competitions, which sought to avoid the extremes of a pure design competition or highest bid process. Rather, the PADC strived for a balanced approach to its selection criteria with the goal of producing well-designed and financially successful projects. While the new prospectus was similar to the earlier ones, the PADC did incorporate changes to the Parcel 408-432 Prospectus based on experience and changes in the market.

The following section includes background and a description of the basic contents of the Development Prospectus for Parcel 408-432.4

3.2.1 "Neighborhood" and Project Objectives

The PADC's emphasis for its second decade was on "establishing an entirely new residential community as part of mixed-use development around Market Square." To create such a downtown neighborhood, the Corporation encouraged development that:

- Reinforces the Avenue's unique role as the physical and symbolic link between the White House and the Capitol and as the merger point between the federal city and Washington community;
- Provides a mixture of commercial residential and cultural activities along the Avenue;
- Attracts residents and visitors to the area, particularly on weekends and in the evening.

3.2.2 The Site and its Surroundings

The site was approximately 85,000 SF and included all of two city blocks with the exception of the northwest quadrant of Square 408 -- the location of the privately owned Federal Triangle Building. According the 1983 amendments to the Plan, "it was assumed that the Federal Triangle Building would remain [and not be acquired] for economic reasons, although it could be replaced or incorporated in new construction."

The developable portion of the site, (i.e. after the removal of areas for public easements and public space) was 65,000 SF, yielding a maximum built area of 650,000 SF.

In the prospectus, the PADC also made note of the significant public investment in the adjacent Market Square Park/Navy Memorial and other public and private investments on nearby sites.

Site Acquisition Note:

In 1978, the PADC realized that the owners of the then-vacant former Kann's Department Store (at 8th and "D" streets) were unable to sell or privately develop their property. The property comprised approximately 75 percent of the land area within square 432. The PADC responded to the opportunity and purchased the property shortly thereafter. In 1979, an unexplained fire destroyed the Kann's Building and the property was cleared and prepared for a temporary park and future development.

The PADC acquired the remaining portions of parcel 408-432, between 1979 and 1983. Eminent domain was not required. The total acquisition cost of Parcel 408-432 was approximately \$19 million.⁵

3.2.3 Selection Criteria

The selection criteria established mandatory requirements for each submission prior to being considered

by the PADC. In addition, through the notation of "additional weight given," the Corporation placed emphasis on specific criteria of special importance.

Mandatory development requirements included:

- Provide a minimum of 100 residential units;
- Provide a minimum of 70,000 SF of retail space including residential support space;
- Locate retail space along the ground floor frontages of Market Square and 7th Street;
- Provide at least one level of below-grade parking;
- Adhere to the building restriction and build-to lines described in the Square Guidelines;
- Offer the Corporation no less than \$25 million, plus an additional \$80,000 for each additional residential unit less than 225 housing units.

"Additional weight" was awarded to submissions which (listed below by category):

DEVELOPMENT PROGRAM

- Included the maximum amount of prestige office development consistent with other program and design requirements;
- Included 225 residential units;
- Provided for outdoor cafes and other food service establishments at the ground level along Market Square Park.

URBAN DESIGN

- Creatively responded to the urban design context;
- Related to both the classical urban design tradition of Washington and the the 19th- and early 20th-century commercial vernacular architecture of the Pennsylvania Avenue National Historic Site.

ARCHITECTURE

- Represented exemplary architectural design;
- Proposed a high level of amenity and quality for the residential units;

- Proposed to use a high-quality materials and finishes.

CONSTRUCTION SCHEDULE

- Committed to develop Parcel 408-432 in one phase;
- Committed to complete construction of the entire site by 1988.

ECONOMIC FEASIBILITY, FINANCIAL CAPABILITY AND FINANCIAL COMPENSATION

- Demonstrated significant equity participation by major institutional investors.

3.2.4 Additional Requirements/Information

Both of the PADC's 1978 competitions required lengthy negotiation processes after selection of the developer. The Willard took nearly six years from proposal to start of construction.

Hence, interested developers for Parcel 408-432 were subject to a more thorough review of their experience and capability to carry out the development as proposed. Documentation of the developer's financial strength, experience in similar complex projects, and the history of their ability to establish and maintain schedules were all crucial to the PADC. Financial partners also had to be identified and institutional equity investors were encouraged.

In addition, the financial deposit system was expanded. All submissions had to be accompanied by a \$50,000 deposit check (refunded to those not selected). The check was part of a total of \$2.5 million required from the chosen developer at critical junctures prior to acquiring title to the property. This money was to be

returned to the developer based on compliance with the PADC schedule requirements. However, the PADC later responded to developer concerns and reduced the total deposits to \$1.3 million.

The selected developer was also required to cover any cost increases of the Market Square Park attributable to delays in the Market Square development.

Lengthy negotiations over legal documents prior to closing had also been problematic in the past. In an effort to reduce this in the future, complete copies of the sale and lease agreements were included with the prospectus.

Further, a comprehensive affirmative action program strove to include minorities in every phase of the development process including equity participation, technical service contracts, construction contracts, materials purchasing, hotel employment and retail tenants. Incentives for achieving the affirmative action goals were provided to developers via reductions in construction period interest or ground lease rates. The affirmative action program was a direct response to a primary objective of The Plan which stated that PADC actions should assist in:

Insuring that minority businesses and workers have an opportunity to share in the benefits that will occur as a result of redevelopment...

Developers also were provided with an an overview of the PADC, The Plan, and existing public and private commitments in the Market Square area.

3.2.5 Urban Design and Financial Strategy Background

In addition to summarized suggestions on design issues, the prospectus appendix included a copy of Square Guidelines: Market Square Development (Squares 407, 408, 431 and 432) (See Map #4) and a Summary of the Eastern Sector Market Analysis Report. Both were components of the Eastern Sector Report. During the study phase, in-house design staff used an urban design framework and economic consultants used the market data to explore financial feasibility. Sensitivity analysis was used to compare different programmatic assumptions. That iterative process produced both the PADC's proposed financial deal and the architecture/urban design guidelines for Parcel 408-432.

The PADC recognized that housing could not be economically supported by the market conditions of the time. The income provided by office or hotel use far outweighed that of housing. Therefore, the site's land value was guided by its potential for developing an office or hotel. In 1984, that value was estimated at more than \$42 million. The Corporation estimated the "buy-down" necessary to encourage the development of housing to be approximately \$65,000/unit. Hence, the PADC's minimum acceptable offer of \$25 million was derived from the difference between the current land value and the total estimated "buy-down" for the 225 housing units.

The PADC was required by Congressional mandate to fully recover all direct costs of acquiring property which was to be private developed. Consequently, all

buy-downs or other subsidy strategies had to be funded by profits realized through appreciation of an individual parcel since its purchase, or through gains derived from previous sales or leases. The Corporation continued this strategy as it planned to use gains from the sale of Parcel 408-432 (approximately \$6 million above its \$19 million acquisition cost) to assist in encouraging additional housing.

3.2.6 Issuance of the Prospectus

The prospectus was issued in early 1984 following national advertising of its upcoming availability in December 1983. It was purchased by 76 individuals and corporations.⁶ The PADC initially requested submissions by May 15, 1984. The Corporation later extended the date until July 30, 1984 in response to early indications that adequate submissions would not be received within the original deadline.

3.3 SUBMISSIONS AND SELECTION

3.3.1 The Private Sector Response

On July 30, 1984, PADC received proposals from six developers. Two additional weeks were then provided to the six to allow for modifications necessary to insure compliance with the PADC's minimum submission requirements. A meeting was also held between the PADC and developer teams to allow for questions. Two proposals were withdrawn due to lack of completeness. Complete proposals were submitted by the following developers:

- Criswell Development Company
- Lincoln Property Company
The Evans Development Company
Oxford Development Enterprises, Inc.
- Rosewood Properties, Inc.
- Western Development Corporation
Kan Am Realty, Inc.

All four submissions met the minimum stated requirements for use and design, including providing at least 225 housing units. The financial proposals varied considerably but all projected a discounted present value to the PADC of at least \$25 million. Each submission's conceptual architectural drawings, renderings and models revealed a range of architectural styles.⁷

3.3.2 Submission Evaluation and Selection

The PADC began its review of the submissions with written questions to the developers on items needing clarification. Subsequent to receipt of answers, the PADC staff prepared a written summary of all submissions for review by the Board of Directors. In prior competitions, staff summaries and follow-up analysis formed the basis of the board's information for review. Staff made no evaluations.

However, PADC Board Chairman Henry A. Berliner, Jr., whose term began in February of 1983, stated:

I requested staff to prepare evaluations of all submissions, graded according the proposal's responsiveness to PADC's requirements. The purpose of the evaluations was not to pick a winner or loser, but rather to identify strengths and weaknesses of each submission.

My goal was to broaden the perspective of the

board by providing a process where each member can value each submission's score independently.⁸

As a result of Berliner's request, staff and consultants conducted an extensive evaluation of all Parcel 408-432 submissions. Included was a narrative qualitative assessment of each submission's response to prospectus selection criteria, Square Guidelines and The Plan. All financial proposals were examined and developer pro-formas were rerun using the PADC's assumptions. Income to the PADC from each proposal was compared. Comparative evaluations of the residential components of each project were also included. Finally, all affirmative action measures were rated. It should be noted that these staff evaluations included no recommendations for submission selection.⁹

The summary/analysis and evaluation materials were provided to each board member prior to an October 1984 meeting at which there were presentations from each development team. Board members selected two submissions for further consideration: Lincoln/Evans/Oxford and Western/Kan Am. In its November 1984 meeting, following additional discussions with both teams and further comparisons of the staff materials, the Board voted. Two votes were cast for Lincoln/Evans/Oxford and the remainder for Western Development Corporation/Kan Am Realty, Inc.

In summary, the Western/Kan Am submission included:

Housing - 225 units
Office - 379,000 SF
Retail - 70,000

Also included were 471 parking spaces and a discounted value to the PADC of \$26.1 million.

M.J. "Jay" Brodie, director of the PADC, commented on the final selection:

I believe the Board favored the Western/Kan Am submission for two reasons: the PADC received the proceeds sooner and the architecture was superior.

Paul Goldberger, architectural critic for the New York Times, labeled the selected Market Square submission by Hartman-Cox Architects as "promising" and "merging a strong sense of composition with classical elements ...enlivened by graceful curves," thus responding to his thought that:

The real challenge of Pennsylvania Avenue has been to find within the classical architectural vocabulary the means to create a lively, varied and energetic streetscape, the sort of place that makes it clear that there need be no contradiction between the dignity of official Washington and the pleasure of urban activity.¹⁰

The PADC staff was delighted with the selection as well, since the Western/Kan Am proposal had been its unofficial choice.

3.3.3 Post-Selection Negotiation/Changes

Western/Kan Am was granted an initial 90-day exclusive right to negotiate by the PADC. During this period the development team prepared schematic design materials, retail plans and a revised construction schedule. The PADC's acceptance of those elements would form the basis

for the memorandum of understanding. The memorandum of understanding, in turn, would be the last step until the purchase and sale agreement.

The initial 90-day period was extended and many months passed before the memorandum of understanding was approved, however. Negotiations for the purchase and sale agreement became delayed by "language rather than content," according to a staff member, and final terms weren't agreed upon until September 1985.

During this year, Western/Kan-Am had been trying to negotiate a purchase or joint-venture agreement with the owners of the Federal Triangle Building. Their original proposal identified a preference for demolishing the building and incorporating the property into the Market Square project. Although the building's owners were agreeable to a deal, some of the building's tenants were not willing to release their leases. The PADC's intervention was required via "friendly" eminent domain actions - which never went to the courtroom.

The delays caused by the additional acquisition, problems with lenders, and changes in the contract language resulted in the sale of parcel 408-432 not taking place until April 1986.

In July 1986, the PADC approved the addition of the Trammell Crow Company and the Dutch Institutional Holding Company to the development team.¹¹ An estimated \$10 million was netted by the original developers from their sale of a majority interest in the project.

Finally, excavation began in October 1987 and the project was scheduled to open in 1990.

3.4 CASE SUMMARY AND ANALYSIS

The number, quality, and detail of the submissions to the Market Square competition offered evidence that the PADC was on target with its concept and offering for the site. Clearly, the private sector was prepared to accept the PADC's terms, including the required public benefits, in exchange for this unique development opportunity.

The public benefits slated for Parcel 408-432 had evolved from the initial objectives described in The Plan and, particularly, from its 1983 amendments. Staff members used the objectives as a tool to specify public benefits for the Market Square development, such as the number of housing units and the design characteristics of ground floor space.

The staff also incorporated knowledge from past project experience into the project requirements. An example of this was the new program criteria that retail uses within the Market Square site be only "activity-generating and residential support." That stipulation was a response to new developments whose ground floors were dominated by banks and other "non-activity-generating" uses. Without such guidance, the retail characteristics would have most likely been determined only by the ease of leasing and maximum rates rather than their contribution to the liveliness of

Pennsylvania Avenue.

The uniqueness of the Market Square site was a major factor in piquing developers' interest in the competition.

According to one entrant, Bill Janes of Lincoln

Properties:

Parcel 408-432 was the last major developable site directly fronting on Pennsylvania Avenue.¹²

Steve Grigg of Western Development added:

The underlying land value was there for a good long-term investment. We were not afraid of the potential problems with a public/private process. Rather, we viewed its potential complexity as a way to reduce the number of competitors and improve our chances to obtain a unique site.¹³

Market Square's land value had appreciated significantly since the PADC's assembly of the parcel. And the appreciation contributed to PADC's ability to buy-down the cost of housing. The resulting downward adjustment to the minimum offering price of the site gave developers the necessary additional incentive to secure their interest in the competition.

The growing demand for class "A" office space, and the competitive advantage given to such space in architecturally-distinctive commercial buildings, gave developers special reason to find the PADC's design requirements not only acceptable, but desirable. Significantly, the detail and sophistication of design requirements for the Market Square site went well beyond those contained in most regulatory-type design guidelines. The PADC's Square Guidelines and the urban design/architecture requirements of the prospectus

had clearly provided both the concept and definition needed to insure that the desired urban design objectives would be met. Of course, the prominence and history of the site demanded such attention.

The sale of the major partnership interest for a substantial gain prior to groundbreaking indicated that values were continuing to dramatically increase. Recognition of that increased value led some staff and board members into an exploration of methods to recapture a portion of future PADC-encouraged gains.

And although the PADC already required board approval of partnership changes, the sale brought about a thorough review of contracts to insure that the new partners would carry out the previously-agreed-to plans. The excellent reputation and financial stability of the new partners, however, provided a high level of comfort to the PADC's concerns over potential project changes.

Finally, it was the submissions that provided the most direct indication of the private sector's "willingness to pay" for a site with public benefits attached. Those public benefits would not have been provided by the private sector without the PADC's assembly of the site and provision of financial incentives added to its regulatory requirements. Offering the parcel at market value, without price adjustments, would have ruled out housing and the site would have most likely been developed as an office building. In addition, the site would have been difficult, if not impossible, to assemble privately,

particularly the post-selection acquisition of the Federal Triangle Building.¹⁴

NOTES TO CHAPTER THREE

1. Parcel 408-432 Prospectus, PADC, 1984.
2. PADC Annual Report - 1988.
3. PADC Annual Report - 1983.
4. Parcel 408-432 Prospectus, PADC, 1984.
5. Smedley, Jerry, Director of Development, PADC, personal interview, June 22, 1989.
6. PADC Annual Report - 1984.
7. Summary of Development Proposals, Parcel 408-432, PADC, September 1984.
8. Berliner, Henry A. Jr., Esq., Chairman of PADC Board of Directors, 1983 - 1989, telephone interview, July 12, 1989.
9. Staff Evaluation of Development Proposals for Parcel 408-432, November 1984.
10. PADC Annual Report - 1986.
11. Goldberger, Paul, "Finding the Proper Path in Rejuvenating Washington's Great Boulevard", The New York Times, January 21, 1985.
12. Janes, Bill, Partner, Lincoln Properties, telephone interview, July 12, 1989.
13. Grigg, Steve, President, Western Urban Development, telephone interview, July 12, 1989.
14. Smedley, Jerry, Director of Development, PADC, personal interview, June 22, 1989.

CHAPTER FOUR: THE PARCEL 431-B (LANSBURGH'S SITE) COMPETITION

4.0 INTRODUCTION AND BACKGROUND

In 1882, German immigrants Max and Gustave Lansburgh selected a site on 7th Street between D and E streets in downtown Washington D.C. for the Lansburgh & Brother Department Store. "Lansburgh's," as it became known, thrived and expanded several times into nearby lots. During the early 1920s, the brothers built and enlarged a new structure on the corner of 8th and E streets which operated in that same location for over 50 years. In 1973, however, after falling victim to a decline in downtown retail trade, Lansburgh's closed its doors.¹

The empty, six-story Lansburgh's Building sat aside its vacant neighbor of similiar height, The Busch Building, as they both awaited the next chapters in their histories.

Each contributed to an architectural streetscape rich in detail and history. The Lansburgh's Building was clad in ornamental terra-cotta, characteristic of its 1920s construction era. The facade of the Busch Building was an Italianate brick design from the 1890s.²

In 1978, when the financial hardship of the existing Lansburgh owners provided the PADC with an early acquisition opportunity, the future of both buildings was in doubt.³ Both were located in Square 431 and had been slated by the Pennsylvania Avenue Plan of 1974 for acquisition and demolition by the PADC. Such actions would enable the properties to become part of a massive new "superblock" of housing combined with retail and

office space.(See Map #2)

The 1983 amendments to the Plan, however, radically altered the original scheme. Preservationists in Washington were relieved to see that the new concept revealed a "weaving" of new buildings in with existing structures. The revised plan for Square 431 called for preserving the historic Lansburgh's and Busch buildings and incorporating them into a new mixed-use development with a continued emphasis on housing.(See Map#3)

In the mid-1980s, as the PADC moved closer toward developing Square 431, additional property was acquired. Following a recommendation by M.J. "Jay" Brodie, the PADC's newly appointed executive director, the Corporation acquired adjacent properties including the two-story Kresge Building at the corner of 7th and E streets. Mr. Brodie felt that the combined properties would create a more feasible redevelopment site and would, therefore, generate more developer interest when offered via competition.⁴

Developer interest in the immediate Market Square area (which includes Square 431) was already quite strong. The PADC's 1984 Market Square competition (for Parcel 408-432) had generated four serious proposals for the site. The selected proposal would provide the PADC with \$26 million for the parcel. And private investment totaling in excess of \$130 million was already committed to other projects in the area. Development under way would include housing, retail and offices as well as galleries

and community arts facilities.⁵

The PADC had received a number of developer inquiries into the Lansburgh's Site by early 1986, when the Corporation decided to begin preparation of the development prospectus for its offering.

4.2 THE PROSPECTUS AND ITS PREPARATION

It was planned that the Lansburgh's Site offering would stimulate additional housing and be the next step toward the PADC's goal of creating 1,200 to 1,500 housing units and a new downtown neighborhood.

The Market Square competition, as well as the previous Willard and National Place competitions, provided the PADC with additional knowledge and experience to be incorporated into the Lansburgh's offering. The events which occurred during the eighteen months required to close the Market Square deal were particularly instructive.

4.2.1 Project Objectives and Requirements For the Lansburgh's Site, the PADC was once again seeking a mixed-use proposal with market-rate, "quality" housing and retail components. In Parcel 431-B case however, offices were optional and a new community arts space requirement was added. Although the basic format of the Lansburgh's Site prospectus was very similar its predecessor, several additional provisions were added to incorporate lessons learned from Market Square. Such provisions included:

- Developers were asked to specify any proposed changes desired to the enclosed legal documents, i.e. sales

and lease agreements, with their submission.

- While the minimum number of housing units sought (225) was similar to Market Square, in the Lansburgh's case that number was required. Additional housing units were encouraged by the PADC with a new \$75,000/unit rebate on the minimum sales price of the property (\$10 million), up to a maximum price reduction of \$8.4 million. The full \$10 million, however, would be required at closing. As an incentive to stay on schedule, the rebates would be made available after the units were completed.

- A recapture provision was added to the rebate mechanism. It specified that if, in any calendar year, the developer receives in excess of a 15 percent non-cumulative return on its cash equity in the project, then the PADC will receive 30 percent of the amount beyond the 15 percent.

- Additional financial incentives were added in an effort to accelerate the development schedule.

- The discounting methods of determining present value were carefully spelled out, rather than the past practice of leaving it up to the developers' creativity.⁶

4.2.2 The Site and Historic Preservation Issues

The combined properties within Parcel 431-B formed a total land area of 62,000 SF. The Lansburgh's, Busch and Kresge Buildings were all required to be preserved under the PADC requirements, although limited alterations were permitted. In addition, facades from two 19th-century buildings (which had been removed from the Market Square

site) were required to be incorporated into the 7th Street portion of the development. The PADC allocated historic preservation funds to assist in these required restoration activities.

Note on Tax Credits and the Department of Interior.

Following the Tax Reform Act of 1981, many historic preservation projects throughout the U.S. benefitted from direct federal tax credits for their investors. To qualify for the credits the buildings' rehabilitations had to be approved by the U.S. Department of Interior. The PADC recognized the potential added value to the Lansburgh's Project - a tax credit of approximately \$2.5 million. Consequently, the PADC staff held meetings with the Department of Interior to establish parameters which could satisfy both the development program and the guidelines for historic certification. Prior to issuance of the prospectus, the PADC felt confident that a certified rehabilitation combined with the new development would be achievable.

4.3 SUBMISSIONS AND SELECTION

The PADC received six submissions for the Lansburgh's competition in December 1986. The developers consisted of:

- The Oliver Carr Company
- Gallery Court Associates
- The Gunwyn Company
- Lansart Associates
- Lincoln Property Company/Lansburgh Associates
- The Jonathan Woodner Company/The Zeckendorf Company

4.3.1 The Private Sector Response

All but one of the proposals included housing units in excess of the 225 required. The Gunwyn Company, however, offered something the board didn't expect - an all-housing scheme. Without the office component, the developer was

able to provide 369 housing units. In addition, the Gallery Court and Lansart groups each proposed 337 housing units and included more than 100,000 SF of office space.

Financially, the highest return to the PADC (on a discounted basis as projected by their economic consultant) was from Lincoln's 225 housing unit proposal with 245,000 SF of office space. That proposal yielded the PADC an estimated \$16.4 million. The proposal with the lowest projected return was Lansart's \$1.9 million. Directly above were Gallery Court's \$5.6 million and Gunwyn's \$7.1 million.⁷

All the schemes included about 30,000 SF of community arts space. The Gunwyn Company's scheme was the most sophisticated, however, in terms of designing and upfitting the space and organizing the non-profit counsel to oversee and coordinate its use.

4.3.2 Submission Evaluation and Selection

The PADC staff reviewed all the submissions and provided summaries to the board in February 1987.

The staff and consultants also conducted an evaluation of the submissions. The evaluation process had evolved to include a numerical rating of each proposal for each of the nine major submission requirement categories: affirmative action, design and historic preservation, residential, community arts, retail, financial proposal, economic feasibility, development schedule, and developer's experience and capability.

The rating system consisted of establishing a maximum

number of achievable points for each category and then assigning points, by category, to each proposal based on how well it satisfied the requirements. The "additional weight" items (such as providing more than 225 housing units, including a 250 seat performing arts facility, and exemplary urban design and architecture), which the PADC had also specified, were assigned double points. The last step consisted of determining the percentage of requirement satisfaction, i.e. the proposal's score divided by the maximum points possible, by category.⁸

In keeping with PADC Chairman Berliner's stated objectives for the evaluation process, no cumulative score or percentage was assigned for each proposal. The individual board members were left to determine which proposals best satisfied the categories they felt were most important. They could, of course, total all nine categorical ratings for each submission on their own.

The board was provided with the evaluations in March 1987. After reviewing all the materials and listening to presentations by each developer, the Board selected three finalists: The Oliver Carr Company, The Gunwyn Company and Lansart Associates. It requested additional information and presentations from each and on April 1, 1987 the Board selected (by the only unanimous vote on a PADC development competition, 12 - 0) The Gunwyn Company's proposal.

In summary, Gunwyn's submission consisted of:

Housing - 369 units

Retail - 34,000 SF

Arts - 32,000 SF

Also included were 272 underground parking spaces, an enclosed rooftop swimming pool and \$7.1 million of discounted return to PADC.

Thirteen years after The Plan had recommended the creation of a new in-town neighborhood anchored by housing, the Board's vote reinforced its commitment to that concept. The all-housing aspect of the selected scheme was quite unexpected and very well received because of both the number and quality of the housing units produced, its financial soundness, and the appropriate design which the staff said:

strongly expresses a residential character, is skillfully composed to enhance the surrounding context with its variety and coherence, and relates exceptionally well to historic elements...9

4.3.3 Post-Selection Negotiation/Changes

The changes following selection were minor. The PADC requested minimal alterations to the arts component. The developer was able, through construction and engineering modifications, to increase the number of parking spaces. Retail space was also expanded slightly. The legal documents were signed in October 1987.

Several snags, however, delayed commencement of construction from its fall 1988 target date until summer 1989. First, the Department of Interior was very uncooperative in its review of the project for historic certification. After regular and appeals procedures, the project was denied approvals necessary to obtain the tax

credits. Second, the permanent lenders weren't fully convinced of the project's viability. Housing in downtown Washington was an unproven product and lenders do not typically start trends, they follow them. After multiple presentations by both the developer and the PADC executive director, though, permanent financing was finally secured.¹⁰ Complications with general contractor negotiations and asbestos removal added further delays.

4.4 CASE SUMMARY AND ANALYSIS

Once again, the private sector response to the PADC's competition requirements illustrated an affirmation of the the Corporation's project concept. In the Lansburgh's case, the developer actually exceeded the PADC's own expectations for the main desired public benefit - housing.

The Lansburgh's Site offering was established in much the same way as the Market Square project. The terms for the sale were established in a similar iterative process weighing both design and financial concerns.

The public benefits originated with The Plan and its amendments, and were adjusted to meet the financial requirements and physical constraints of the site. The proposed Lansburgh's deal structure also incorporated knowledge from the PADC's recent experiences with the Market Square negotiations and changes in partnership.

The site's location (with new development under way on several adjacent blocks), the PADC's track record, and the specific offering terms created general interest within the

development community.

In addition, The Oliver Carr Company was interested due to its ownership of other properties nearby and its success with the Willard project. Even though Carr wasn't the PADC's first choice in the Willard Competition, the firm had stepped in when the selected developer failed to close. Carr thought a similar opportunity would not be out of the question with the Lansburgh's Site.¹¹

For the selected developer, The Gunwyn Company, the Lansburgh's Site provided an opportunity to expand into the Washington market with a product the firm knew well. Lincoln Property entered, even though they lost the Market Place competition. Lincoln's submission, in particular, acknowledged the offering's attractiveness as well as the fairness and professional reputation of the PADC.

The Lansburgh's Site competition was another example of the PADC's continued success in influencing land use through "dealmaking" between the public and private sectors. The project, as proposed, clearly would not have been produced by either the private real estate market alone or with the limited additional influence of public regulatory mechanisms such as zoning or design guidelines.

Without the PADC's purchase of property and the addition of price incentives for providing the public benefits, the most likely use of the site would have been as an office development, without a housing component.

Office space would have been more profitable, as

office lease rates would have generated about \$30/SF annually versus the \$16/SF received for market rates on quality apartments.

Housing also would not have been marketable at the price required by the \$16 million estimated value of the land (\$6 million above the PADC's minimum price with 225 housing units). That cost would have added \$14.6 million to the project (market value less net sales price to the developer with maximum extra housing units) or approximately \$40,000/unit. As apartments that translates into approximately \$400/month additional rent - well beyond what the market would bear.

The historic preservation goals for the site may have still been achieved, however, with an office project. Utilizing the rehabilitation tax credits would probably not been imperative, but would have certainly been advantageous to offset the rehabilitation costs.

Like its predecessor Market Square, the Lansburgh's Site competition produced a better project than the private sector would have on its own. The collaborative architect/developer teams, worked within design guidelines and competed for a prime development site. They recognized PADC's keen interest in both sensitive urban design and exemplary architecture. The resulting submissions produced very well designed, financially feasible projects. An individual developer, without the guidance of the PADC's competition guidelines/incentives and the search for a competitive selection edge, probably

would not have been so generous to the Washington D.C. streetscape.

NOTES TO CHAPTER FOUR

1. PADC Annual Report - 1988.
2. Parcel 431-B (Lansburgh's Site) Prospectus, PADC 1986.
3. Smedley, Jerry, Director of Development, PADC, personal interview, June 22, 1989.
4. Brodie, M.J., Executive Director, PADC, personal interview, June 23, 1989.
5. PADC Annual Report - 1986.
6. Parcel 431-B (Lansburgh's Site) Prospectus, PADC 1986.
7. Summary of Development Proposals, Parcel 431-B, PADC, February 1987.
8. Staff Evaluation of Development Proposals for Parcel 431-B, March 1987.
9. Staff Evaluation of Development Proposals for Parcel 431-B, March 1987.
10. Brodie, M.J., Executive Director, PADC, personal interview, June 23, 1989.
11. Bourke, Thomas, Vice President, Oliver Carr Company, Washington, D.C., telephone interview, July 12, 1989.

CHAPTER FIVE: SUMMARY ANALYSIS AND CONCLUSIONS

5.1 THE EFFECTIVENESS OF THE PADC

The PADC approached the development of the Market Square and Lansburgh's sites not unlike a private developer. And those private-developer-type activities contributed heavily to the PADC's effectiveness as a public development corporation.

The staff and consultants analyzed market and land value data, identified and assembled property into efficient configurations and prepared programs for those parcels that made financial sense. When the real estate market conditions changed, the PADC responded to those changes. The Eastern Sector Report, for example, reflected an understanding of the necessary adjustments of public benefits to meet not only the economic realities but also the new political climate - i.e., the demise of federal housing programs and the growth of a historic preservation constituency. Without the changes recommended in that report, the Market Square and Lansburgh's competitions -- and the developments they produced -- would have been severely compromised.

With the cost of each developer's submission running upwards of \$100,000, the combined proposals represented both serious interest in the competition and great confidence in the PADC itself. In particular, the entrants acknowledged the PADC staff's professionalism and the board's fairness in selections - both were key to the PADC's overall effectiveness as a public developer.

Steve Grigg, Western Development noted:

the PADC's staff is the key to its process, they're smart and fair.

And executive director, M.J. "Jay" Brodie remarked:

PADC's success is due to in great part to the individual members of the staff and board and their combined dedication to the Corporation's public mission....

One of the staff's greatest professional strengths was in design, which ultimately had the impact of boosting the Corporation's overall effectiveness. Those design skills were utilized in the PADC's public improvement program and project management as well as the competition process. The staff-prepared design parameters for the entire Market Square area contributed significantly to the design success of the competitions, particularly in the parcel 408-432 case.

The design guidance also served to provide reassurance to developers that their neighbors would be required to uphold the same standards in which they themselves were investing. Consequently, the design efforts served to reinforce the PADC's other incentives aimed at interesting developers in the competitions.

5.2 ACHIEVEMENT OF PUBLIC BENEFIT OBJECTIVES

The public benefit objectives which the Corporation achieved resulted from a combination of actions, including:

- the PADC's ability to purchase land early in an appreciating market and to hold it as long as required;

- the PADC's ability to assemble properties into parcels large enough for the proposed uses; and
- the PADC's flexibility to not require fair market value for property and its concurrent ability to utilize gains from other property sales and leases to "buy-down" the cost of the desired but uneconomic housing and arts components.

The PADC's ample borrowing capabilities enabled the Corporation to purchase properties early and hold them for future development. The properties' value benefited from the PADC's investment in public improvements to nearby public spaces and streetscapes. The eminent domain powers, while not often fully exercised, also contributed to PADC's functional capabilities by providing the Corporation with extra leverage in the assembly of sites.

5.3 LIMITATIONS OF THE REGULATORY APPROACH

If the PADC had been limited to the regulatory-only approach to encouraging housing and other public benefits, its success in achieving those objectives would have been substantially reduced.

While land and development values determined by the growing office demand made housing uneconomical, additional pressures were provided by Washington D.C.'s strict height restrictions. The height controls effectively prohibit the density bonuses which other cities can offer to encourage typically non-economic uses or public amenities. Boston, for example, uses regulations to restrict use and density and then provides developers incentives via increased floor-to-area ratios (F.A.R.) for

providing public benefits. With the constrained F.A.R.s of both sites, the maximum build-outs would have not produced enough income from office use to buy-down the extra cost of housing. The regulatory-only approach would not have produced the achievements of PADC's "dealmaking" approach.

5.4 STILL AWAITING THE COMPLETE EVALUATION

With the construction of both the Lansburgh's and Market Square projects still under way, it is impossible to evaluate the built results of the competitions. The housing issue is the most unresolved - both in terms of its definition as a "public" benefit and whether it will contribute to the PADC's goal of creating a "neighborhood."

The PADC did, indeed, satisfy one of its original objectives - the creation of new, housing. And housing has been considered throughout this paper as a public benefit. However, many have speculated that the housing in the two projects will be occupied by part-time residents or owned by corporations, lobbyists and law firms for the use of guests or employees. Will the housing become homes or hotel-type accommodations? Should it have included an "affordable" housing component? The answer to these questions will be a large measure of the PADC's overall success.

Another unresolved issue concerns the buy-downs which the PADC utilized to subsidize the development of housing. Housing without an affordable component. The best long-term results would be that the PADC-encouraged housing

serves to both create a downtown neighborhood (one which includes more than upper-income housing) and improve the economic health of the city - in which case it would be a "public" benefit. The short-term thinking is that significantly more housing could have been built from the PADC's gains if it was located where land prices justify it. Again, its too early to judge.

5.5 CONCLUSIONS

Development competitions can be an effective means for public development corporations to engage private developers for projects with a public purpose. And, well-managed competitions can result in projects superior to those produced by the private sector alone.

The development community's perception of the public side's fairness and proficiency is crucial to the success of the process. Alternately, the public sector must exhibit an ability to understand and, in many ways, function like their private counterparts.

The PADC's competition process was complemented by other concurrent public development and regulatory activities. The combined efforts reinforced each other and enhanced the desirability of the individual competition projects. Consequently, the PADC's competitions cannot be judged alone, but within the context of broader public involvement in related real estate activities. The individual pieces combined to create a more successful

"whole" than a single competition on a individual site would have.

Finally, the PADC's development competition process was not without its shortcomings - communicating the Corporation's desired balance between design and finance was, perhaps, its most constant struggle. The PADC, however, strove to incorporate past experiences towards an improved competition process. The Corporation's ability to learn and change was another key to its success.

**TABLE NO.1 - SUMMARY OF PROJECTS
WITHIN PADC BOUNDARIES (1988)**

| <u>Number of Projects</u> | <u>PADC Participation</u> | <u>Private Invest. (\$mil)</u> | <u>% of Total by \$</u> |
|-----------------------------------|---|--|-----------------------------|
| 12 | Regulatory Review Only | \$363.0 | 25% |
| 5 | Partial Site Acquisition Regulatory Review | 411.0 | 28% |
| 3 | Total Site Acquisition Regulatory Review | 92.0 | 6% |
| 4 | Development Competitions Total Site Acquisition Regulatory Review | 606.0 | 41% |
| 24 | TOTALS | \$1,472.0 | |

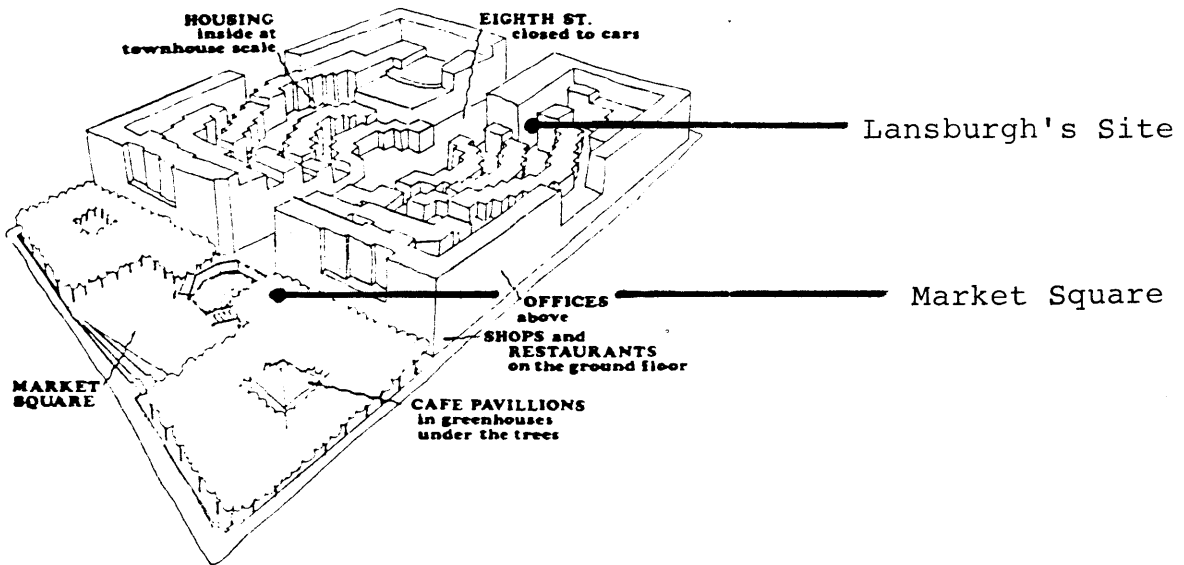
Notes:

- Amounts shown for private investment commitments include projects scheduled to begin through 1990
- \$40 million investment in Canadian Embassy listed as private under partial site acquisition category
- All private investment amounts were listed in PADC's 1988 Annual Report, type of participation was derived from interview with Jerry Smedley, PADC Director of Development
- PADC estimates a total net public investment of \$130 million. All Public Development, Historic Preservation, Relocation and Administration expenditures are included in that total (from PADC Annual Report -1987).

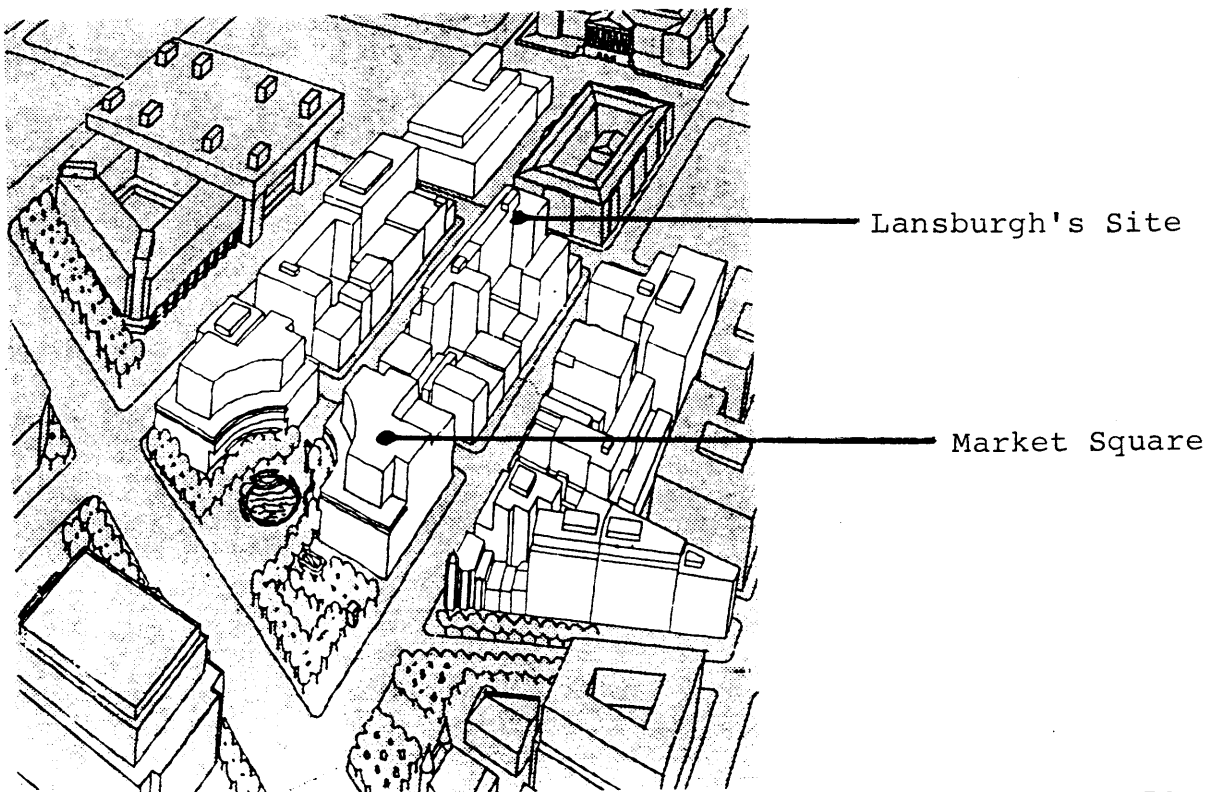
(From 1974 Plan)

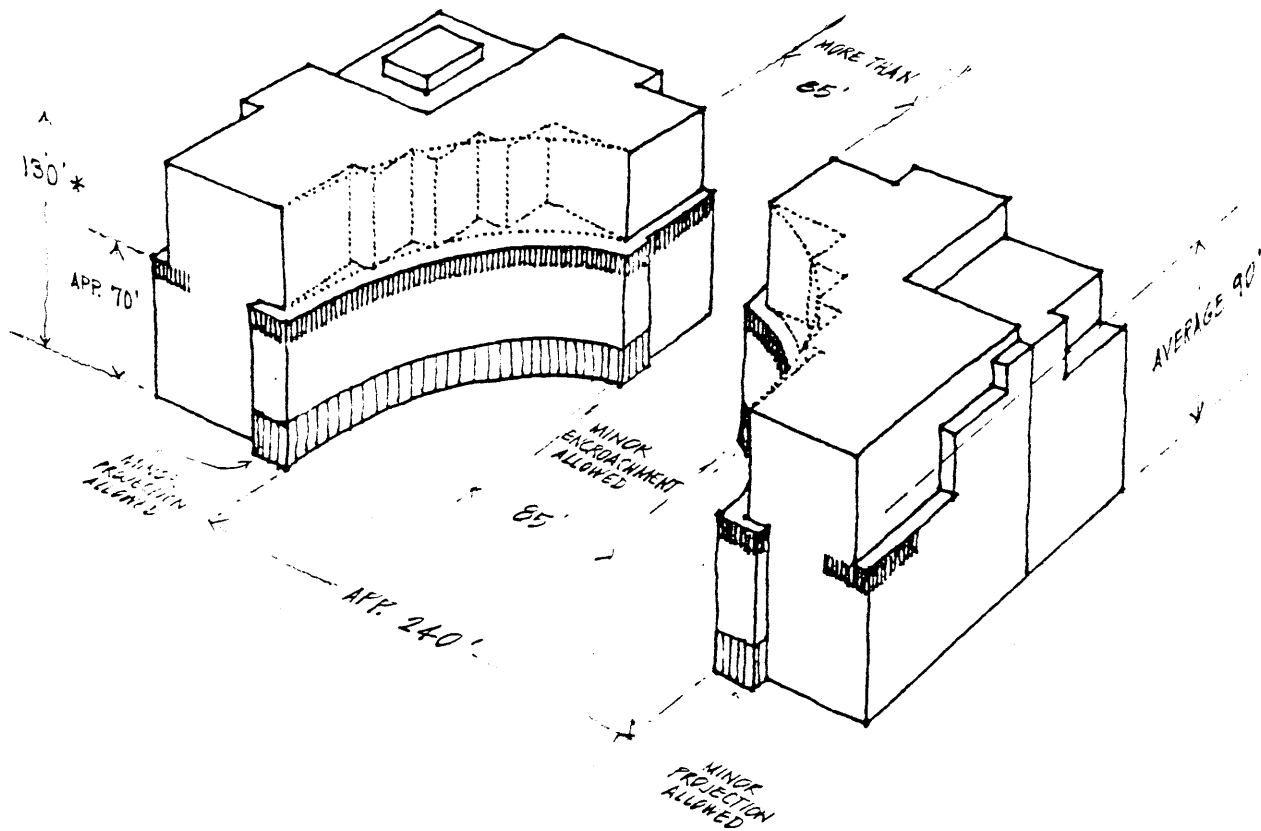
(From 1974 Plan)

MAP NO.2 "SUPERBLOCK" (From 1974 Plan)



MAP NO.3 REVISED SCHEME - 1983





* This height is for general reference only. The exact maximum height should be established in accordance with Section 5201 of the Zoning Regulations of the District of Columbia.

DIAGRAM #4: HEIGHT OF DEVELOPMENT

(from PADC Square Guidelines)

BIBLIOGRAPHY

Dowall, D., Gardner, L., Green, V., "Public Real Estate Development Manual", Working Paper, U. of California, Berkeley, Institute for Transportation Studies.

Barnes, W. Anderson, "Downtown Development: Plan and Implementation" ULI Development Component Series (Washington, D.C.: Urban Land Institute, 1982)

Lefcoe, George, "When Government Becomes Land Developers: Notes on the Public Sector Experience in the Netherlands and California," Lincoln Institute of Land Policy, Monograph #78-3, April 1978.

Forgey, Benjamin, "Designs on the Avenue", The Washington Post, September 9, 1984.

Forgey, Benjamin, "Lansburgh's Happy Plethora", The Washington Post, February 21, 1987.

Goldberger, Paul, "Finding the Proper Path in Rejuvenating Washington's Great Boulevard", The New York Times, January 21, 1985.

Jenkins, Mark, "New Residences at Pennsylvania Avenue," Warfields, June 1987.

PADC Annual Reports, 1977, 1983 - 1988, PADC, Washington, D.C.

Parcel 225-A (Willard Hotel) and Parcel 225-B Prospectus, PADC, 1978.

✓ Parcel 254-A Prospectus, PADC, 1978.

✓ Parcel 408-432 Prospectus, PADC, 1984.

✓ Parcel 431-B (Lansburgh's Site) Prospectus, PADC, 1986.

✓ The Pennsylvania Avenue Plan 1974, as amended through 1983.

Reps, J., The Making of Urban America, 1975.

Staff Evaluations of Development Proposals for Parcel 408-432, PADC, November 1984.

Staff Evaluations of Development Proposals for Parcel 431-B, PADC, March 1987.

Summary of Development Proposals, Parcel 408-432, PADC, September, 1984.

Summary of Development Proposals, Parcel 431-B, PADC, February, 1987.

BIBLIOGRAPHY, Continued

Tercyak, Thad J., "Marketing Public Land", URBAN LAND, February 1986, pp 14-18.

Witherspoon, Robert, "Codevelopment: City Rebuilding by Business and Government" ULI Development Component Series, Washington, D.C.: Urban Land Institute, 1982.

INTERVIEWS

Berliner, Henry A. Jr. Esq., President, Second National Federal Savings Bank, Annapolis, Maryland, (Chairman of the Board, Pennsylvania Avenue Development Corporation, 1983 - 1989), telephone interview July 12, 1989.

Bourke, Thomas, Vice President, Oliver Carr Company, Washington, D.C., telephone interview July 12, 1989.

Brodie, M.J."Jay", Executive Director, Pennsylvania Avenue Development Corporation, Washington, D.C., May 24, 1989, June 23, 1989, telephone interview June 28, 1989.

Grigg, Steven, President of Western Urban Development, Washington, D.C., telephone interview July 12, 1989.

Janes, Bill, Partner, Lincoln Properties, Washington, D.C., telephone interview July 12, 1989.

Madsen, Peter, President of Gunwyn Corporation, Cambridge, Massachusetts, July 14, 1989.

Neuhaus, Jo-Ann, Chief of Project Management, Pennsylvania Avenue Development Corporation, Washington, D.C., May 25, 1989, June 22, 1989.

Smedley, Jerry, Director of Development, Pennsylvania Avenue Development Corporation, Washington, D.C., May 25, 1989, June 22, 1989.